

Technical Notes



NATIONAL SOCIETY FOR BUSINESS BUDGETING •

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EDITOR'S NOTES

Technical Notes hereby presents its annual forecast of 1954 business conditions. Your Editor wishes to take this opportunity to thank the members of the Milwaukee Chapter who assisted in the preparation of the material presented in this report.

The principal source of the material has been developed from the "pro" and "con" round table discussion held at the November 1953 Milwaukee Chapter meeting which was stimulated by short talks given by the following individuals relative to the 1954 outlook in certain specified industries:

Machine Tool Industry:

E. R. Doehr - Kearney & Trecker Corporation

Construction:

A. H. Weiss - Harnischfeger Corp.

Paperboard:

S. Grady - Marathon Corporation

Automobile & Petroleum:

R. O. Willmore - A. O. Smith Corp.

Retail:

E. S. Waterbury - Ed. Schuster & Co.

Consumer Durable Products:

A. Schick - Geuder, Paesche & Frey Co.

Agriculture:

C. A. Koller - Allis-Chalmers Manufacturing Co.

Another article in this issue is a short summary of a talk given to the New York Chapter by Mr. Dexter M. Keezer, Director of the Department of Economics, McGraw-Hill Publishing Company on the same subject.

The success of budgeting is based upon effective planning and effective forecasting. If our budgeting, planning, and forecasting is done efficiently and wisely it certainly will have a beneficial effect upon the operating results of the various business enterprises we, as individuals, are associated with.

Another important factor affecting our business operations is the Federal Government's budget which at the present time is being planned and will be presented for review by the congressional appropriations committee whose duty it is to match expenditures with forecast revenue for the fiscal year beginning July 1, 1954. During the next three months this relatively small committee must meet the prodigious task of reviewing appropriation requests of some seventy or eighty billion dollars.

It, therefore, behooves us as budget minded individuals to do whatever we can to help get Federal spending back to a reasonable basis. I am sure, that if any of us has any constructive suggestions that will aid the committee in eliminating unnecessary Federal spending, I am sure the committee will welcome such suggestions.

Such communications may be addressed to: The Honorable John Taber, Chairman, House Appropriations Committee, Washington, D. C.

An interesting commentary on 1954 business conditions is contained in the December 4, 1953 issue of U.S. News and World Report in which W. Randolph Burgess, Deputy to the Secretary of the Treasury is interviewed. Of interest to us as budget people is Mr. Burgess' answer to the following question: "Aren't these two months, November and December, the months in which business does a lot of planning for the next year?" Mr. Burgess' answer was, "I suppose that's true. People are making their budgets, and one thing that makes them plan is the budget." (Underscoring supplied.)

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Your Editor takes this opportunity to extend to the members of the National Society for Business Budgeting his personal wishes for a MERRY CHRISTMAS AND A HAPPY AND PROSPEROUS NEW YEAR.

OUTLOOK FOR 1954

The "prophets of deep gloom" got no encouragement from the Milwaukee Chapter when it discussed the many divergent factors in the business outlook for 1954.

Milwaukee concluded that the high level of activity attained in 1953 would be maintained or exceeded by some industries and companies in 1954. Other industries and companies could expect lower volume for 1954. No sharp drop from the 1953 rate was forecast for "business in general." Instead, moderate adjustments - slightly downward - were expected to characterize 1954 in the main. Hence, it appeared that each company needs to analyze the factors controlling its operation and not rely upon "general forecasts" when making plans and budgets for 1954.

Although the general level of activity for 1954 may be 5 to 10 percent below that of 1953, individual companies will have to depend upon aggressive sales policies to hold volume and cost control (including improved efficiency) to preserve earning's records.

The Milwaukee discussion of the Outlook for 1954 was based on a panel presentation by seven Chapter members who discussed the "Outlook" for the particular fields in which their companies operate.

The discussion of the "1954 Outlook" was slanted to the outlook for Wisconsin industry in contrast to a study of the outlook for the whole United States. Wisconsin industry is characterized by companies which produce either multiple product lines that are sold to many different industries or single product lines that go to various industries. It was pointed out repeatedly that foreseeable conditions in specific markets justified forecasts of increased sales of as much as 35% in some markets to decreased sales of as much as 25% in other markets. In some cases it was indicated that, although the outlook in general for a particular company's industry might be down, individual companies within that industry expected increases which would be contrary to the general trend in their own field.

The conclusion was inescapable that a significant development in 1954 probably will be a sharp change in the "Sales Mix" obtained in 1954 when comparisons are made with the Sales Mix obtained in 1953. Therefore, recognizing that 1953 had been a year of extremely high industrial activity, it was considered likely that broad indices of general business activity for 1954 were expected to be higher than the figure obtained for 1952 --- which was then regarded as "a good year." In general, no sharp decline was expected unless important segments of the economy became seriously affected by droughts --- as happened in 1953 --- or a wave of serious strikes based upon Unions striving for guaranteed annual wage plans in 1954.

The barometric industries, which were examined in arriving at these conclusions were:

INDUSTRIAL CONSTRUCTION INDUSTRY

Companies supplying heavy equipment to the industrial field naturally sell to a variety of markets. It was believed that some of these markets would buy heavy equipment in substantially less volume than they had in 1953.

The steel industry, for example, was expected to buy heavy equipment in decreasing amounts - even up to 24% less than they did in 1953. In contrast to this forecast the automotive industry, electrical industry, the packaged foods industry and certain other industries were expected to buy more in 1954 --- even up to 15% more than they ordered in 1953.

In November, it looked like the construction industry might expect a high volume although this level probably would be about 4% less than obtained in 1953. Inasmuch as the projections for this industry in recent years usually have been conservative, a question was raised as to whether current projections of a slight decline for 1954 might not actually turn out to be "conservative figures" for 1954.

Some companies in the industry expected that their own 1954 activity would show an increase over 1953 which they expected would be a trend contrary to the trend in the industry.

A summary of estimated expenditures for new plant and equipment follows:

SPENDING FOR NEW PLANT AND EQUIPMENT (Millions of Dollars)

| | <u>Est.</u> <u>1953</u> | <u>Plans</u> <u>1954</u> | <u>Increase or</u> <u>Decrease</u> |
|------------------------------------|----------------------------|-----------------------------|---------------------------------------|
| Steel | \$ 1,460 | \$ 1,108 | -24% |
| Automobiles | 923 | 1,063 | +15 |
| Machinery | 899 | 805 | -10 |
| Electrical Machinery | 463 | 512 | +10 |
| Transportation Equipment | 215 | 196 | - 9 |
| Food | 841 | 841 | 0 |
| Petroleum | 2,824 | 2,757 | -2 |
| Chemicals | 1,800 | 1,546 | -14 |
| Textiles | 296 | 260 | -12 |
| Other Manufacturing | 2,969 | 2,595 | -13 |
| TOTAL MANUFACTURING | 12,690 | 11,683 | - 8 |

CONSTRUCTION - HOUSING

Housing in 1954 was expected to continue at a high rate with at least one million "starts" being made in 1954. The type of house that will be built in 1954, however, will be different from those built lately. The declining trend for homes that cost \$20,000 or more will definitely continue into 1954. However, there was expected to be a very good market for homes costing between \$11,000 and \$14,000 with major house building activity in 1954 being in prefabricated houses that cost less than \$11,000.

It was expected that this building activity would develop because most people want to own their own home and because of the stimulus that will develop from further

rent increases. Since rental rates have increased more relatively than have home construction costs in recent years, this situation still makes home owning a strong factor for continued high volume in home building.

SUMMARY: The construction industry - both commercial and residential was expected to operate at a high rate in 1954 (perhaps not as high as 1953 but very close to it.) Although the backlog of industrial construction may decrease, this was not considered to be a retarding factor on the 1954 level of activity. Intense competition for business undoubtedly will increase. The experiences of individual companies may vary widely - either up or down - from the experience of the industry in general.

PAPERBOARD INDUSTRY

While there was a dip in the paperboard industry during part of 1953, it recovered rapidly and now has a favorable relationship with the balance of the non-durable goods industry. As you know, the bulk of the paperboard market lies in the non-durable goods field, and this seems to be fortunate insofar as the outlook for 1954 is concerned. As is often the case, components of production will show diverse movements and, while we read and hear discussed that total production will probably be off in 1954, production of consumers' non-durables is apt to remain relatively stable throughout most of next year. Production of consumers' perishable goods (manufactured foods, beverages, newsprint, etc.) is expected to show slight increases in the coming three quarters. Production of consumers' semi-durable goods (paper, textiles, rubber products, leather, etc.) will probably show some strength in the remainder of this year and then ease very gradually in 1954.

Not only do components of production show divergent movements, but there are divergent trends among the various end-use industries of any one category. This is the case in paper board, and so I will try in some of my remarks to split these industries and give you some information on each. I'll start by giving you some of the highlights of the 1953 season.

1. Total paperboard production in 1953 at all time high will be first year to exceed 12 MM tons and should exceed 12-1/2 MM.
2. Container board production will be 13 - 15% higher than in 1952.
3. Boxboard production also having its best year should be 12-14% over 1952.
4. Mill activity averaged 94% first 10 months, exceeded only twice previously -- in 1947 was 99%.
5. Special food board in which Marathon corporation is primarily interested in has virtually doubled capacity and production since 1949, and it is estimated that '53 production of 1 MM tons will be 98.5 of capacity.

Production of milk carton board has expanded 50% since '50 and is now tapering off -- over-the-counter stores field is now 90% in paper board but the home market has barely been tapped.

I hope I haven't thrown too many figures at you, but I've tried to show you what has been accomplished in the past and now I'll stick my neck out for 1954.

As I mentioned before, consumers' non-durables we expect won't vary much in total in 1954 but will have those divergent movements within the groups making up the totals.

Demand for paper board is expected to be maintained in 1954. But demand varies by customers within the industry. I'll try to explain. Marathon sells to food

manufacturers who in turn sell to jobbers, food chains, etc., who ultimately sell to the end-use consumer. In the case of our products, the housewife will buy the dough-nuts, the ice cream, the frozen spinach, and the old man will bring home the "bacon board." It is the end-use customer who eventually governs paperboard output. Next year we expect part of the nation's paperboard needs to be met from inventories of paperboard accumulated between the board producers and the packagers. The pipelines are all a little full, so that we do expect production to be down somewhat. Down as a percent of capacity, but perhaps equal to this year's estimated output of probably 12-1/2 MM tons. Capacity, you see, is expected to increase to 15,000 M tons compared with '53 capacity of 13,600 M tons -- a 10% increase.

Demand for container board at the packager's level is expected to be down about 10% next year. At the ultimate consumer's level, however, container board demand is likely to remain steady. The steepness of the expected decline in total demand for container board by packagers reflects the importance of consumers' durable goods as a market for container board. Demand for container board is forecast to show the largest decline of the various grades of paperboard during the next 9 to 12 months.

Demand for folding box board is apt to fall about 6-9% next year. This decline, while relatively smaller than that indicated for container board, is larger than the decline expected for any other grade of paperboard.

During the first three quarters of '54 demand for setup boxboard is expected to remain steady. Production in '53 has been running in excess of demand, indicating some increase in setup boxboard inventories in the distribution channels. By mid-'54 production is apt to be below criterion levels.

Special food board is the only segment of the industry expected to expand during '54. This year's production should reach 1 MM tons, about in line with demand. (And, as I mentioned before, 98.7% of capacity.) This amounts to about 19 M tons per week. In the first three quarters for next year, demand for special food board is likely to average about 20-22 M tons per week. That's a 10% increase. This increase will be primarily due to increases in the number of items packaged in special food board; only minor increases in the production of items that can be packaged by this board are expected.

DISPOSABLE INCOME

The retail markets were labeled as being dependent largely upon the activity of local industries in providing employment for "the purchasing public." In general, there appeared to be no reason to expect a sharp drop in general employment. Therefore, no sharp decrease in consumers purchasing power was expected. It was recognized that the sales of semi-durable goods might be at a lower rate in 1954 than they had been obtained in 1953 because inventories of "semi-durables" had accumulated. Therefore, it was expected that the "hard-line" sales during the first half year of 1953 might be "off" from 3% to 8%. Soft goods, on the other hand, have a market that is influenced by the expanding population. Since income of wage earners is expected to be higher than in 1953, it was expected that sales of soft goods would rise in 1954 in comparison to 1953 -- the sales volume of soft goods certainly would be as good as that obtained in 1953.

Over-all for the year it was expected that the department store sales would be in the neighborhood of 1% to 3% greater than they were in 1953. Retail stores were expected to be conservative in their buying, would not do advance buying, and might

even liquidate some inventory. It was not expected that inventories in retail stores would increase over present levels.

ROAD BUILDING

It was recognized that 1953 had been a year of high activity in road building. Because the country, as a whole still needs to rebuild its roads, this activity was expected to continue in 1954. Results of this primary demand, however, were expected to effect individual manufacturers in different ways.

Manufacturers of materials such as cement were expected to find a good market in road building in 1954. Manufacturers of road building equipment, were not expected to enjoy a strong market. The government has purchased road building equipment in considerable quantities during recent years and is not expected to be "back in the market" for one or two years. Contractors have been buying new road equipment in considerable quantities mindful of possible future restrictions upon purchases due to "cold war" conditions. Inasmuch as contractor's equipment now operating is relatively modern and in good condition, it was expected that there may be a 12% to 15% decline in volume over the next 12 to 15 month period. However, the sale of repair parts was expected to supplement the sale of new equipment so that the total decline was not expected to be more than indicated.

LIGHT INDUSTRY - METAL TRADES

This industry was also predicted as being one which the sales mix in 1954 would undoubtedly be radically different from the sales mix obtained from 1953. The industry serves a variety of markets in which the demand was expected to change from market to market including a change in the "buying habits" by some markets. Changes ranging from a decrease of 11% to an increase of 35% in respect to individual product lines were expected. Prices competition was expected to increase. The outlook for the total industry was expected to be somewhat downward but companies able to reduce their operating cost so as to obtain price advantages were expected to have an activity rate higher than that of the over-all 4% decline expected for the industry.

Manufacturers' inventories were expected to decrease, inasmuch as steel has become plentiful. Steel prices were expected to decrease either through concession or by the absorption of Freight rates by steel manufacturers. Therefore, the profits in 1954 were expected to be as good for some manufacturers as they were in 1953. Employment provided by some manufacturers was also expected to be as good as in 1953 -- especially in the case of those companies who move contra to the industrial trend.

Government contracts placed in the "light metal" trades were expected to decrease sharply so that they would be of minor importance as a source of sales in the coming year.

AGRICULTURE - OUTLOOK FOR 1954

Farm Income has been declining in the past two years and perhaps the best way to measure this decrease would be to compare it with total National Income. The table below shows this comparison with the percentage of Farm Income to total National Income:

| | National Income | Farm Income | Percent to Nat. Income |
|--------------------------------|-----------------|----------------|---------------------------|
| September 1952 | 290.4 (billion) | 15.2 (billion) | 5.23% |
| December 1952 | 301.4 (billion) | 14.0 (billion) | 4.64% |
| March 1953 | 306.7 (billion) | 13.4 (billion) | 4.37% |
| June 1953 | 310.7 (billion) | 12.3 (billion) | 3.96% |
| Year 1954 (Estimate) | | 12.0 (billion) | |

THE EFFECT OF THE DROUGHT

The drought in the southwest has primarily affected the cattlemen in that area. Beef prices have declined as cattlemen disposed of their stock because of lack of feed.

The Department of Agriculture has set up a program designed to assist the cattlemen as follows:

- (1) Provide emergency credit loans.
- (2) Provide low-cost feed, with price cuts of 50%.
- (3) Appropriated ten million dollars for hay.
- (4) The Government is buying 750,000 head of cattle, which is disposed of through foreign outlets, school lunch programs and federal institutions.
- (5) Induce the railroads to reduce freight rates on cattle and feed.
- (6) Promoting the use of Beef -- year 1953 consumption about 30% over 1952 and near a record 75 pounds per capita.

The effects of the present drought, however, will carry over until 1954. The price of beef will increase after the present surplus is depleted and a measure of relief will be provided for the cattlemen who have stock available for the market.

FARM IMPLEMENT MANUFACTURERS

In the year 1953, a majority of the manufacturers of farm implements were forced to make drastic cut-backs in production. This was due primarily to high inventories, the drought, declining farm income, and a reluctance on the part of the farmer to over-buy as he has in the past. Only last January, allocations of materials to this industry were still in effect. After Government controls were off, the industry purchased large quantities of material, resulting in over-production for the immediate months ahead.

The outlook for 1954, however, is far from being unfavorable. The past three or four years were ones of high production to satisfy the needs of the farmer for mechanized equipment. The trend is now definitely back to the seasonable pattern which was common to this industry before the war years.

Other factors to be considered in 1954 are as follows:

- (1) Farmers buying habits have changed from the conservative basis of pre-war years.
- (2) The need for a second tractor and mounted implements are still very much in demand.
- (3) Technological advances in the industry will create new markets.
- (4) Farm labor will continue to be a problem, thus enhancing the position of the implement manufacturers.

Some of the manufacturers in this area do have the problems of liquidating present inventory. Others will be faced with a slight decline in their repair business as Dealer stocks are high. The overall picture for these manufacturers, however, will be relatively favorable for the year ahead, as the industry swings into the reasonable pattern. In general, sales will be down about 15% and production about 25% in spots.

STEEL

In the summer of 1953 there had been forecasts that the steel industry would be operating at 90% capacity during the third quarter. Actual results were that the third quarter operating rate was at 95% of capacity. In general, it was expected that the steel industry would probably operate at 85% of capacity or higher during 1954.

Such a projection might be taken to indicate that the industry might be expected to go through a sharp readjustment period in 1954. It was believed, however, that such an interpretation did not recognize that that capacity of the steel industry has been sharply upward in recent years. Since the steel industry operating at an 85% capacity rate would produce 100 million tons of steel, it was believed that this should be considered as a good rate of operation for 1954 because such a production rate has been exceeded only in 1951, 52 and 53.

The profits of the steel companies were expected to be at least as high as their profits in 1953. This forecast was based on the fact that, in any readjustment downward of steel activity, the plants that would be taken out of operation would be the lower, least-efficient plants so that economies undoubtedly would result from operating the newer and more efficient plants. Although there were indications that profits might be higher because of the elimination of the Excess Profit Tax and the operating of the most efficient plants, it was considered likely that steel prices would be shaded somewhat in 1954 when companies were competing to maintain their volume.

ELECTRICAL UTILITIES

Recent experience has been that the amount of electrical power generated has been doubling every ten years. The operating rate is now 33% higher than it was in 1950. Plant expansion of the electrical utilities was expected to continue until 1955 and 1956. Therefore, those companies supplying electric generating equipment, transformers, and related materials were expected to enjoy a good demand throughout 1954. The amount of power generated in 1954, however, might decrease slightly unless threats of new wars developed that would raise the general level of industrial activity.

INTEREST RATES

Interest rates were not expected to increase in 1954. There was an indication that 1954 interest rates might even be a little lower than the present rates. It was expected that more mortgage money would be available for the housing industry and that it would be easier for small business to borrow in 1954.

It was expected that the interest rate would be manipulated to obtain a "favorable" rate that would act to bolster the general level of business instead of acting as a "brake" upon general business as happened in the spring of 1953.

SAVINGS

Although the amount of overtime might decrease in 1954, wage earners were expected to receive substantial incomes. In the past few years since World War II, the percentage of the national income that has been going into "savings" has been increasing from 4% to almost 6%. The current savings rate is in the neighborhood of 5.3%.

It was expected that there would be substantial savings in 1954. On the other hand, it was considered entirely possible that, with the lowering of the personal income tax rate, disposable income would continue to be at a high level. People also might decide to use some of their savings to purchase automobiles, or homes if the general public believed that the situation was favorable to them.

TAXATION

Elimination of the Excess Profits Tax, which is expected to occur in 1954, is believed to be a favorable factor in continuing the high rate of business activity in 1954. Elimination of certain Excise Taxes and the reduction of personal income taxes, (as mentioned previously) were also believed to be favorable factors. In November, it was impossible to determine whether the Social Security Tax would increase from 1-1/2% to 2% as required by present law. It is believed, however, that should the 2% rate go into effect, other tax adjustments would be made to offset the increased taxation because of the change in the Social Security rates.

EMPLOYMENT

Employment at the present time is very near an all-time high and likewise unemployment is at a very low figure. It was believed that any readjustment in employment would be made first by eliminating the least efficient employees and perhaps the elimination of some married women who are employed at the present.

Elimination of the least efficient employees was believed to be a positive factor in reducing production costs. It was expected that the labor forces would not expand sharply during 1954 because the birth rate during the 30's was low and the recent increase in population is concentrated in the age groups that are still in school. Maximum of unemployment was not expected to raise above five and a half million persons -- a low figure when compared to past experience.

GROSS NATIONAL PRODUCTION

The figure for gross national production reached a higher level in 1953 than had been forecast a year ago. It was expected that the gross national product figure will be lower for 1954 than 1953 -- about \$365 billion in comparison to its present figure of \$371 billion.

INDUSTRIAL PRODUCTION INDEX

In the spring of 1953 the national production index reached 243 in March, and has now declined to 234. Projections are that this index will probably average out about 10% lower than the present activity rate, giving an average figure in the neighborhood of 215 for 1954, although at times during the year the index may go as low as 206.

SALES AND EARNINGS

Sales and earnings will vary extremely from industry to industry and also within industries. Since many companies are predicting increased sales and earnings for themselves (although they expect the trend for their industry to be downward), this situation undoubtedly deflects plans for aggressive sales policies and further emphasis upon cost control procedures. In general there appears to be no prospect for an over-all sharp dip or cut in production activity.

CONTROLLING ECONOMIC ACTIVITY

In the past, American business has been subject to governmental regulations and the application of governmental controls designed to control inflationary forces or to stimulate business recovery. It was doubted that 1954 will be a period characterized by more extensive use of "formal" government control measures. That is not to say, however, that some control over the business level will not be exercised indirectly. It was expected that 1954 will see further use of control of "the money market" as a means of forstalling serious recessions. This development undoubtedly will come through "management" of interest rates for government indebtedness, securing a higher limit for the national debt, buying and selling government securities by the Reserve Banks in a manner designed to broaden the base on which banks grant credit.

Any drop in personal and business income will result in a decrease in government income since tax revenues will be less. The further expansion of the national debt will be an inflationary factor. Tax relief, on the other hand, was expected to aid in maintaining the purchasing power of the country.

So, 1954 could very well be a good year. Even though it may be a very good year, there may be some companies that may move away from the general trend -- either up or down.

The applications of the principles of flexible budgeting to different levels of operations may be a very useful tool in 1954 to preplan decisions prior to the necessity of making decisions compatible with the actual operating levels obtained.

PETROLEUM & AUTOMOTIVE MARKETS

Most of the information I am about to pass on to you was made available to me through the courtesy of our Market Research Department.

The future activity of the petroleum and automotive markets determines the potential sales of five of our products. These products are -

- (1) Welded Line Pipe &
- (2) Casing
- (3) Processing equipment for the oil refineries,
- (4) Frames &
- (5) Control arms for passenger cars and trucks.

To estimate the petroleum industry's tonnage requirements of tubular products, it is necessary to consider the amount of oil well drilling activity to be expected, and the number of gathering and transmission pipe lines to be built for the transportation of crude oil, natural gas and refined products. Since the number of wells being drilled is continually increasing, it is expected that casing tonnage will continue to rise. Over the past five years the average annual increase in casing has been about 6-1/2%. Assuming that this rate of increase will continue in the coming year, casing tonnage shipped should be about 1.5 million tons in 1954, as compared with 1,400,000

tons estimated for 1953. I might point out that if casing shipments increase due to increased oil well drilling activity then undoubtedly shipments of other equipment used in drilling oil wells will also increase.

The usage of line pipe for natural gas transmission lines is expected to decline in 1954 as compared with 1953. In fact, because the extension of such pipe lines has been made to most of the major consuming areas, it is expected that the building of pipe lines will continue to decline beyond 1954.

However - the decline in natural gas lines is expected to be more than offset by an expansion in crude oil and refined product pipe lines. It appears, therefore, that 1954 demand for line pipe will be at least as great as 1953 and possibly slightly more.

What about the expansion of oil refinery and processing facilities? Our market research people are currently wrestling with this problem and as yet have no definite answer. Since I was unable to obtain their views on the subject, I am taking the liberty of injecting, at this point, some of my own observations.

In view of the current surplus of refined products, to me, it appears unlikely that capital expenditures in 1954 for refinery and processing facilities will be as great as in 1953. This view point can, I believe, be supported thru the use of the McGraw-Hill capital expenditure survey. This survey indicates that capital expenditures by the Petroleum Industry will decline about 2% in 1954 over 1953. Now - if we can assume that our estimate of shipments of tubular goods and oil well drilling equipment to the industry are correct, then shipments of these products will show a small increase and this would mean that a decline of something greater than 2% is indicated for expenditures for refinery and processing facilities. The McGraw-Hill Survey indicates total expenditures by the industry in 1953 of \$2,824,000,000. Another publication, The Petroleum Refiner estimates 1953 expenditures for refinery and processing facilities at \$1,085,000,000 or 38% of the total figure given by McGraw-Hill. If we assume that the overall increase for tubular goods and drilling equipment will be as much as 3%, then the decline in expenditures for refinery and processing facilities will run about 10%.

So much for the petroleum industry. Let's turn our attention now to the automotive industry.

It appears likely that 1953 production of passenger cars and trucks will be within 10% of the all time high of 8,000,000 produced in 1950. In 1951, a government cut back of steel allotments resulted in a decline to 6,750,000 vehicles. The steel strike in 1952, reduced the number produced that year to 5,540,000.

1953 production should be about 7,370,000 after reflecting the 4th Quarter cut back. This cut back is due to the difficulty that dealers have been having in selling cars during the past several months. However, the 4th Quarter production would be at an annual rate of 6,300,000 which as pointed out by Business Week is still very good when one considers that the 4th Quarter is normally the season's slowest.

Current estimates of 1954 auto production range from a decline of 10 to 20%, from 1953 levels. On this basis the number of cars, produced in 1954 will be between 5,900,000 and 6,600,000 as compared with 7,370,000 for 1953. For passenger cars only, production will range between 5,000,000 to 5,600,000 as compared to 6,200,000 for 1953. I understand that current estimates by Ford and Chrysler place 1954 passenger car production at 5,000,000. This, of course, represents a 20% decline.

Referring again to the McGraw-Hill survey we find that the automotive industry is planning for 1954 a 15% increase in capital expenditures. This represents the largest increase in capital spending of all the industries surveyed. The 15%

increase in capital expenditures in face of a possible 10-20% decline in product output is explained as meeting increased competition thru installation of more modern equipment, adding facilities for the production of automotive transmissions and other special accessories, and getting ready to produce new models.

MACHINE TOOL INDUSTRY

Thus far in our country's history when there was war or threat of war, the machine tool industry was suddenly swamped with a volume of defense orders far beyond its capacity. Then, after it had built up its capacity to meet the emergency, the government-owned machine tools were thrown upon the open market when peace came again. This direct competition with new machines being built by the industry forced the industry into the doldrums. Then along would come another defense crisis---and the whole cycle would be repeated all over again. The main reason for this recurring picture is that the United States, in the past, has always thought of war or defense purely as an emergency proposition.

Today our entire attitude has changed. We recognize that as far as we can see ahead, national defense must not be erratic but a continuing program.

The problem of government-owned tools no longer needed for defense work, is again facing the industry. It is being studied in Washington. There are several alternative solutions. One course of action would be for the government to sell these machines in the open market in competition with new machine tools now being built. This would lead to a recurrence of the situation which developed when this program was followed after World War II. The result was to depress the industry to such a low level that it was utterly unprepared for the defense emergency which arose with Korea. Everybody is agreed that from the standpoint of military preparedness, the industry must be maintained at a reasonable rate of capacity.

All is not gloom, however. According to the trade paper, *Machine Tool Progress*, the sharp decline in new orders for defense purposes has been largely offset by the increase in orders for machine tools for civilian purposes. Since Korea our more competitive business conditions have emphasized the need for modern machine tools to cut costs. The report also states that at the end of September the backlog for the industry stood at seven months production. This is the lowest backlog since before the Korean war. At the height of the Korean emergency, backlog reached 23 months. It has now been whittled down to where customers can get normal deliveries on the types of machine tools they want.

Eliot Janeway, the consulting economist, predicted in a talk before the American Machine Tool Dealers Association that continued high demand for machine tools would defy gloomy forecasts by those who persist in tying the industry to cyclical ups and downs. He relies upon "labor-cost inflation," pressure of competition for lower prices of goods, a backlog of civilian orders accumulated in 1950-52, more liberal depreciation allowances, and new defense tooling programs for support of a 'boom' in machine tools.

Shipments according to the Machine Tool Index now appears to be off about 15% from the previous nine months' level. This seems to have been the peak level so far as shipments for the entire industry are concerned.

The American Machinist in a recent issue says that machine tool sales are holding up very well. The situation admittedly is not uniformly good with all companies. Production still is high by whatever standards that you may apply. It will continue to be high the remainder of the year. After that shipments are likely to

shrink. This does not mean that the decline in operations in builders' plants would be as great as the drop expected in dollar volume. At least some of the shrinkage will come from the dropping off of sub-contractors. A number of subcontractors will clean up their commitments by December and their machine tool building will then cease.

Some builders complain that the amount of pending business has dropped sharply. Others report that inquiries are heavy. A large number have second shifts at work while some companies are down to a single-shift basis with that shift working overtime. Potential machine tool business is large. Many orders have been placed by the automobile industry for delivery late in 1954 and even into 1955. Backlogs of some makers of special-purpose machine tools are actually getting bigger according to The American Machinist magazine. So much for the industry in general.

Our own statistician tells us that Kearney & Trecker sales over the past twelve years represented approximately 4% of the total sales volume of the machine tool industry. For this same period our company supplied approximately 35% of all general purpose milling machines. Kearney & Trecker sales for the fiscal period ending September 30, 1953, was approximately \$47 million. Shipments are expected to continue at the 1953 rate well into the second quarter of 1954. Our backlog has declined to about \$25 million from the \$50 million a year ago. Our shipping volume for 1954 is not expected to decline by more than 15% from the 1953 level. The 1953 volume included a substantial amount of sub-contracting which is scheduled to be dropped by December of this year. 1954 shipments are predicated largely upon production with our own facilities and include very little sub-contracting.

THE BUSINESS OUTLOOK FOR 1954

Summary of a talk presented by Mr. Dexter M. Keezer, Director of the Department of Economics, McGraw-Hill Publishing Co. at the November 17, 1953 meeting of the New York Chapter of the National Society for Business Budgeting.

Mr. Keezer predicted that in the near-term future, up until July 1954, we would probably witness a gradual slide in national economic activity from a super-boom to a high-level of prosperity. Right now we are right around the peak of the greatest boom in economic history. For example, gross national product of 269 billion dollars for the third quarter of 1953 was lower by three billion dollars than gross national product for the second quarter of this year. The FRB Index of Industrial Production, which will probably be about 230 for October 1953, is off from its peak of 243. Unemployment currently is at a very low level of 1,200,000 persons.

Where do we go from here? Barring the influence of unforeseen political events, a slow decline in business activity is expected through July 1954. The decline may continue well beyond that time, but in this politically explosive world it is altogether possible that some unforeseen development will intervene to give business great new stimulation. Mr. Keezer stated that as a sporting, rather than a forecasting proposition, he prefers the position that this will be the case. Why do we anticipate a decline? Housing starts next year are estimated at 900,000 units compared with 1,200,000 units for this year. Steel production next year will probably average 80-85% of capacity as contrasted with operations at 95% of capacity for the current year. Automobile production for next year is anticipated to be at a volume of 5,500,000 units compared with about 6,000,000 units for 1953. National defense expenditures for 1954 are expected to be maintained at the 51 billion dollar level - off by 2 billion

dollars from 1953. Anticipated changes in the area of international trade will not, Mr. Keezer felt, have a significant effect upon the level of economic activity in the United States. Factors which will tend to prevent the gradual decline in business activity from "snow-balling" into a major recession include the following:

1. A favorable consumer attitude is expected to continue to exist over the near-term future. A recent University of Michigan survey indicates that American families are satisfied with their finances.
2. An expanding population will provide an increased market for goods and services.
3. Research expenditures, facilitating the development of new products, will continue at a high level.
4. Expenditures for capital expenditures are expected to continue at a high level. As capital expenditures go, so goes the prosperity of the nation.
5. Support for farm prices will be maintained, and wage rates are fortified against chaotic collapse by long term union contracts.
6. Bank deposit insurance gives us protection against panicky withdrawal of deposits, thereby preventing destructive contraction of credit.
7. The present administration in Washington is committed to do everything possible to prevent a recession.

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